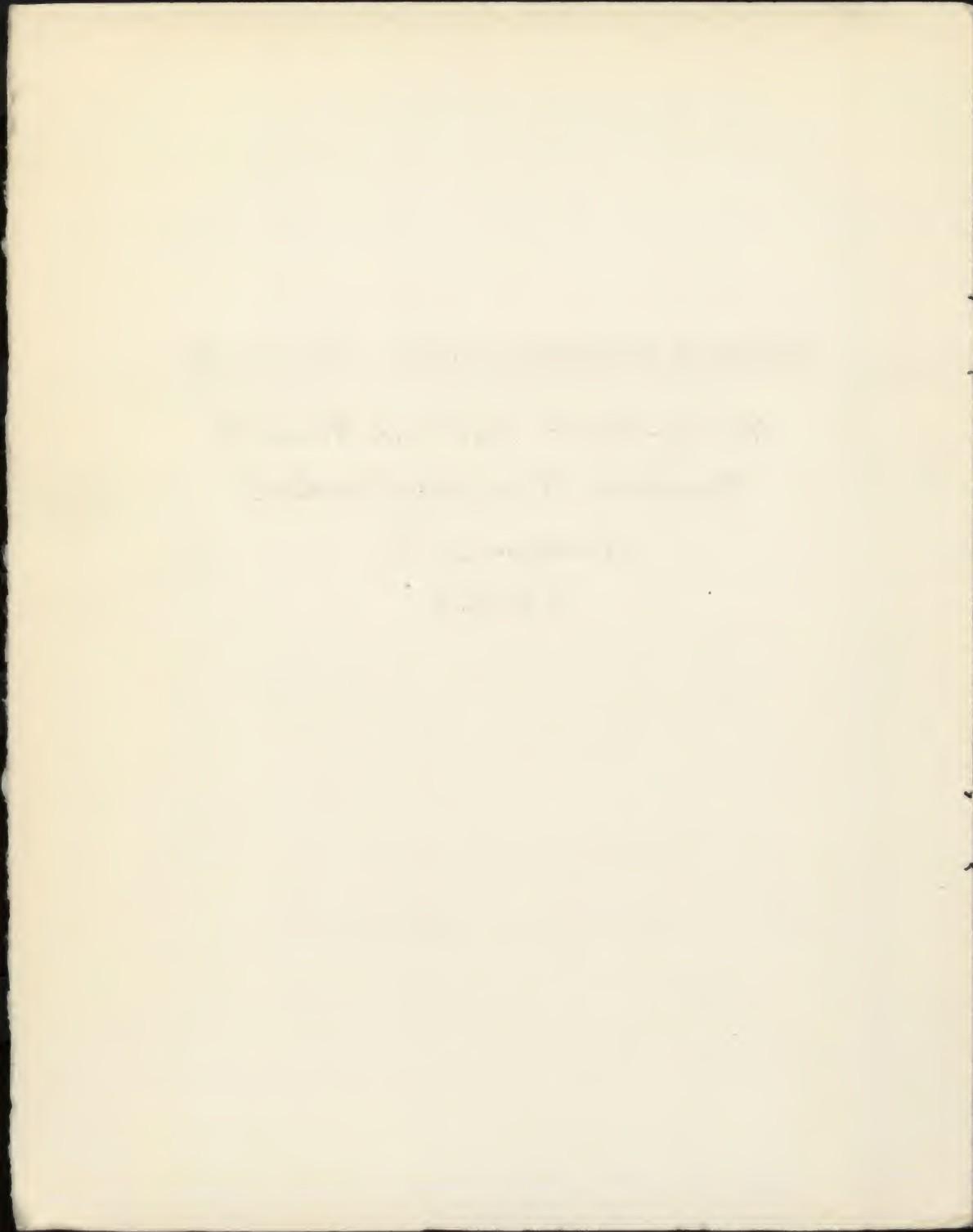


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**MONTGOMERY WARD**  
**Sixty-Fifth Annual Report**  
**Twelve Months Ended**  
**January 31**  
**1937**

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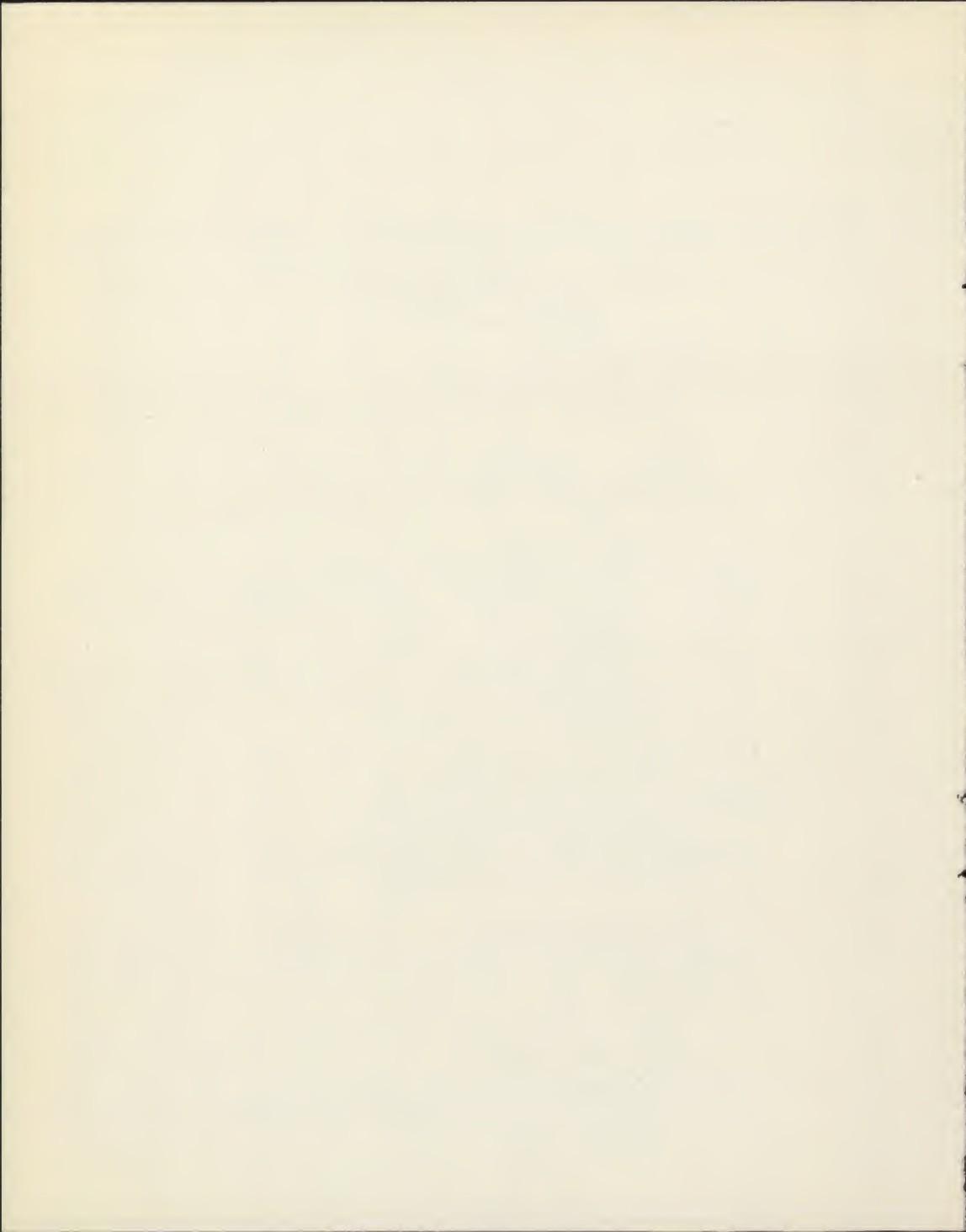


MONTGOMERY WARD & CO.

INCORPORATED

*Sixty-Fifth Annual Report*

*Twelve Months Ended January 31, 1937*



Chicago, March 17, 1937

*To the Stockholders of*

*Montgomery Ward & Co.:*

The following report presents a brief summary of your company's sixty-fifth year of operation.

Net profit for the year was \$20,198,914 which, after providing for Class "A" dividends, is equal to \$4.12 per share on the common stock outstanding before the issuance of additional shares in January, 1937. This is the largest profit in the company's history. For the previous year the corresponding earning was \$13,527,310 or \$2.65 per common share. Each division of the business, retail, mail order, and factories, showed a substantial improvement. Net profit is after all charges, including provisions of \$4,600,000 for income taxes and \$400,000 for Federal surtax on undistributed earnings.

Net sales of \$361,297,000, the highest in the company's history, represented a 23% increase over 1935, the previous record year. Substantial gains were made in both the retail and mail order divisions. Forty-one new stores opened during the year contributed to the increase in retail volume. The company now operates 548 retail units.

Operating costs have been reasonably satisfactory for the year, although substantial increases were incurred during the fourth quarter as the result of advances in wage rates extended to substantially all employees. Operating costs will probably continue to increase during the coming year. The extent to which such increased costs can be recovered through higher selling prices is at this time problematical. A lower net profit margin for the first half of 1937 seems unavoidable.

Net working capital increased \$22,000,000 during the year to \$118,800,000 on January 31, 1937. The principal factor is the increase of \$21,700,000 in inventories, attributable to the larger volume of business and to opportunities for favorable purchases of merchandise. The 1936 expenditure of approximately \$7,000,000 for land, buildings, and equipment

exceeded the depreciation provided for physical properties by \$3,500,000.

Although the 1936 earnings would have provided a large part of the increased working capital required during the year, it was necessary, to avoid excessive surtax penalties, to distribute substantially all of the year's earnings in the form of cash dividends. These dividends totaled \$19,670,894, of which \$1,410,878 was paid to Class A stockholders and \$18,260,016 or \$4.00 per share to common stockholders. To obtain the necessary new working capital, the common shareholders were offered additional common stock at \$40.00 per share which provided approximately \$25,000,000. In the near future, the company will be faced with the necessity of obtaining the further increase in working capital which the growth of its business makes necessary.

Respectfully submitted,

SEWELL L. AVERY,

*President*

Montgomery Ward & Co.,  
 (AN ILLINOIS C  
 Consolidated Balance S

**ASSETS**

**Current Assets:**

Cash (less treasurer's drafts outstanding) . . . . .	\$ 17,130,892.06
Marketable securities (market price \$62,390)	49,109.84
Receivables—	
Customers' time-payment accounts (average terms eight months, approximately \$1,800,000 maturing after one year) . . . . .	\$ 46,122,649.65
Other customers' accounts . . . . .	1,903,891.91
Due from suppliers, claims receivable, etc. . . . .	<u>1,752,617.88</u>
	<u>\$ 49,779,159.44</u>
Less—Reserves for doubtful accounts, collection expense, etc. . . . .	<u>5,424,016.34</u>
	<u>44,355,143.10</u>
Merchandise inventories, including raw materials and factory work in process of \$3,813,656; quantities and condition determined by the Company; priced at the lower of cost or market . . . . .	<u>87,174,188.20</u>
Total current assets . . . . .	<u>\$ 148,709,333.20</u>

**Investments in Mortgages, Real Estate, etc.**

First mortgage notes and land contracts on homes sold (due in installments) . . . . .	\$ 3,034,727.24
Homes held for resale, at cost . . . . .	<u>5,817,248.69</u>
	<u>\$ 8,851,975.93</u>
Less—Reserves for losses . . . . .	<u>1,876,388.75</u>
Investments at cost, less reserves (including \$222,208 U. S. Government securities deposited under self-insurance agreements) . . . . .	<u>232,973.05</u>
	<u>7,208,560.23</u>

**Prepaid Spring Catalog Costs, Paper Stock, Supplies, Insurance, etc. . . . .**

5,912,666.46

**Fixed Assets (at cost, less depreciation reserves):**

Land . . . . .	\$ 6,243,390.66
Buildings . . . . .	\$ 32,457,023.54
Fixtures and equipment . . . . .	<u>22,756,952.28</u>
	<u>\$ 55,213,975.82</u>
Less—Reserves for depreciation . . . . .	<u>20,008,209.52</u>
Leasehold improvements (less amortization) . . . . .	<u>3,402,413.06</u>
	<u>\$ 206,682,129.91</u>

# Incorporated and Subsidiary

CORPORATION)

Sheet — January 31, 1937

## LIABILITIES

### Current Liabilities:

Accounts payable .....	\$ 13,794,302.48
Due customers .....	<u>2,202,049.65</u>
Accrued expenses and taxes—	
Salaries, wages, extra compensation, other operating expenses, etc.....	\$ 5,979,365.68
Personal property, real estate and sundry taxes .....	2,598,489.11
Federal income tax and surtax (subject to final determination by Treasury De- partment).....	<u>5,311,625.99</u>
Total current liabilities .....	<u>13,889,480.78</u>
	\$ 29,885,832.91
Reserve for Self-insurance .....	1,004,359.22

### Capital Stock and Surplus:

#### Capital stock—

##### Authorized—

Class "A"—205,000 shares of no par  
value, \$7 per share cumulative divi-  
dends, non-callable and entitled in  
liquidation to \$100 per share

Common—6,000,000 shares of no par  
value

##### Issued (stated value)—

Class "A"— 205,000 shares } .....

Common— 5,173,611 shares }

\$ 147,546,900.08

Amounts received on installment subscrip-  
tions aggregating \$1,175,200 for 29,380  
shares of common stock at \$40 per share.

485,040.00

Earned surplus (see accompanying summary)

28,012,674.20

\$ 176,044,614.28

##### Less—Treasury stock—

Class "A"—3,446 shares .....

252,676.50

175,791,937.78

NOTE: Under the Company's offer of December 28, 1936 to shareholders, a  
total of 14,156 common shares were not subscribed through the exercise of  
purchase warrants. These shares are reserved for subscription at \$40 per share  
by Company officers of the rank of Vice-President or lower and a limited  
number of employees.

\$ 206,682,129.91

# Montgomery Ward & Co., Incorporated

## COMPARATIVE CONSOLIDATED INCOME ACCOUNT FOR THE YEARS ENDED JANUARY 31, 1937 AND 1936

	<i>Year Ended January 31</i>	
	1937	1936
Net sales . . . . .	<u>\$ 361,297,059.00</u>	<u>\$ 293,042,357.00</u>
Deduct—		
Cost of goods sold, selling and general expenses, including taxes other than income taxes . . . . .	\$ 332,914,247.05	\$ 273,158,396.37
Depreciation of fixed properties . . . . .	3,199,092.41	3,038,907.42
Amortization of leasehold improvements . . . . .	273,247.83	301,835.85
	<u>\$ 336,386,587.29</u>	<u>\$ 276,499,139.64</u>
Net operating profit . . . . .	<u>\$ 24,910,471.71</u>	<u>\$ 16,543,217.36</u>
Other income—		
Interest earned on mortgages and land contracts and rental income on homes held for resale, less direct expense applicable thereto . . . . .	\$ 265,975.63	\$ 171,120.17
Interest earned on securities, profit on securities sold, etc. . . . .	22,466.79	122,972.66
	<u>\$ 288,442.42</u>	<u>\$ 294,092.83</u>
Net profit before Federal and state income taxes . . . . .	<u>\$ 25,198,914.13</u>	<u>\$ 16,837,310.19</u>
Deduct—		
Provision for Federal and state income taxes . . . . .	\$ 4,600,000.00	\$ 3,310,000.00
Provision for Federal surtax on undistributed profits . . . . .	400,000.00	—
	<u>\$ 5,000,000.00</u>	<u>\$ 3,310,000.00</u>
Net profit carried to surplus . . . . .	<u>\$ 20,198,914.13</u>	<u>\$ 13,527,310.19</u>

### RECORD OF ANNUAL NET SALES

1936-7 . . . . .	\$ 361,297,059	1931 . . . . .	\$ 200,400,193
1935-6 . . . . .	293,042,357	1930 . . . . .	249,097,223
1934-5 . . . . .	249,805,721	1929 . . . . .	267,325,503
1933-4 . . . . .	187,632,543	1928 . . . . .	214,350,446
1932-3 (13 months) . . . . .	176,488,690	1927 . . . . .	186,683,340

# Montgomery Ward & Co., Incorporated

## CONSOLIDATED EARNED SURPLUS ACCOUNT FOR THE YEAR ENDED JANUARY 31, 1937

Balance January 31, 1936.....	\$ 27,131,934.57
Net profit for the year ended January 31, 1937.....	20,198,914.13
Total .....	<u>\$ 47,330,848.70</u>

Deduct—

Dividends on Class "A" stock—\$5.25 per share—paid to January 1, 1937 (provision for first quarter dividend charged to surplus in prior year).....	\$ 1,058,158.50
Dividends on common stock—\$ 4.00 per share	18,260,016.00
Balance January 31, 1937.....	<u>\$ 28,012,674.20</u>

## SUMMARY OF RESERVE FOR SELF-INSURANCE FOR THE YEAR ENDED JANUARY, 31, 1937

Balance January 31, 1936.....	\$ 971,032.88
Add—Provision made by charges to income account.....	392,618.09
	<u>\$ 1,363,650.97</u>
Deduct—Self insured losses incurred.....	359,291.75
Balance January 31, 1937.....	<u>\$ 1,004,359.22</u>

To the Board of Directors,  
*Montgomery Ward & Co., Incorporated:*

We have made an examination of the consolidated balance sheet of MONTGOMERY WARD & CO., INCORPORATED, AND SUBSIDIARY as at January 31, 1937, and of the statements of consolidated income and surplus for the year ended that date. In connection therewith, we examined or tested accounting records of the companies and other supporting evidence and obtained information and explanations from officers and employees of the companies; we also made a general review of the accounting methods and of the operating and income accounts for the year, but we did not make a detailed audit of the transactions.

In our opinion, based upon such examination, the accompanying consolidated balance sheet and related statements of income and earned surplus fairly present, in accordance with accepted principles of accounting consistently maintained by the companies during the year under review, the financial position of the companies at January 31, 1937, and the results of their operations for the year ended that date.

ARTHUR ANDERSEN & CO.

Chicago, Illinois, March 10, 1937.

# Montgomery Ward & Co., Incorporated

## COMPARISON OF CONSOLIDATED BALANCE SHEETS AS AT JANUARY 31, 1937 AND 1936

	<i>January 31</i>	
	<i>1937</i>	<i>1936</i>
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash . . . . .	\$ 17,130,892.06	\$ 15,220,170.97
Marketable securities . . . . .	49,109.84	153,147.81
Receivables, less reserves . . . . .	44,355,143.10	33,659,387.88
Merchandise inventories . . . . .	<u>87,174,188.20</u>	<u>65,435,102.26</u>
Total current assets . . . . .	<u>\$148,709,333.20</u>	<u>\$114,467,808.92</u>
<b>Investments in Mortgages, Real Estate, Etc.</b>		
Estate, Etc. . . . .	7,208,560.23	7,956,300.46
Prepaid Catalog Costs and Expenses . . . . .	5,912,666.46	4,751,844.01
Fixed Assets, Less Depreciation Reserves . . . . .	<u>44,851,570.02</u>	<u>41,508,482.78</u>
	<u>\$206,682,129.91</u>	<u>\$168,684,436.17</u>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Current Liabilities . . . . .	\$ 29,885,832.91	\$ 17,631,525.14
Reserve for Self-insurance . . . . .	1,004,359.22	971,032.88
<b>Capital Stock and Surplus:</b>		
Capital stock issued (stated value) . . . . .	147,546,900.08	123,202,620.08
Less—Treasury stock . . . . .	252,676.50	252,676.50
Amounts received on installment subscriptions	485,040.00	—
Earned surplus . . . . .	<u>28,012,674.20</u>	<u>27,131,934.57</u>
	<u>\$206,682,129.91</u>	<u>\$168,684,436.17</u>
Net Working Capital . . . . .	<u>\$118,823,500.29</u>	<u>\$ 96,836,283.78</u>

# **Montgomery Ward & Co., Incorporated**

## **DIRECTORS**

**SEWELL L. AVERY, Chairman**

DAVID A. CRAWFORD	CHARLES F. GLORE
HARRY P. DAVISON	D. R. McLENNAN
PERCY B. ECKHART	SILAS H. STRAWN
RAYMOND H. FOGLER	JAMES W. THORNE
FRANK M. FOLSOM	GEORGE W. VAUGHT

## **OFFICERS**

SEWELL L. AVERY.....	<i>President</i>
SILAS H. STRAWN.....	<i>Chairman, Executive Committee</i>
RAYMOND H. FOGLER .....	<i>Vice-President</i>
FRANK M. FOLSOM.....	<i>Vice-President</i>
CHARLES W. HARRIS.....	<i>Vice-President</i>
HOWARD W. JORDAN.....	<i>Vice-President</i>
GEORGE W. VAUGHT.....	<i>Treasurer</i>
ALBERT T. HUIZINGA.....	<i>Assistant Treasurer</i>
ROBERT S. SMITH .....	<i>Assistant Treasurer</i>
STUART S. BALL.....	<i>Secretary</i>
CHARLES B. FULLERTON.....	<i>Assistant Secretary</i>

### *Transfer Agents*

MONTGOMERY WARD & CO., INCORPORATED, CHICAGO, ILL.  
MONTGOMERY WARD & CO., INCORPORATED, NEW YORK, N. Y.

### *Registrars*

FIRST NATIONAL BANK OF CHICAGO, CHICAGO, ILL.  
BANKERS TRUST COMPANY, NEW YORK, N. Y.

